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**MEASURE R OVERSIGHT COMMITTEE
MAY 13, 2015**

SUBJECT: MEASURE R PROGRAM

**ACTION: ADOPT A RESOLUTION FINDING THAT THE BENEFITS
OF A SHORT-TERM BORROWING PROGRAM EXCEED
ISSUANCE AND INTEREST COSTS**

RECOMMENDATION

Adopt a resolution finding that the benefits of a \$300 million Short-term Borrowing program secured with Measure R revenues exceed issuance and interest costs, Attachment A.

ISSUE

The Measure R Ordinance requires that The Proposition R Independent Taxpayers Oversight Committee of LACMTA, ("Measure R Oversight Committee") "review all proposed debt financings and make a finding as to whether the benefits of the proposed financing for accelerating project delivery, avoiding future cost escalation, and related factors exceed issuance and interest costs".

DISCUSSION

Metro is focused on ensuring delivery of the transit capital and highway projects set forth in the Measure R Expenditure Plan. A short-term borrowing program will provide interim financing to fund cash flow requirements for construction payments until grant funding is received, TIFIA loans are drawn upon or until alternative long-term financing is arranged. Metro's Long Range Transportation Plan assumed we will use short-term borrowing as well as long-term bonds to deliver Measure R capital projects.

Short-term borrowing in the form of commercial paper or revolving credit facilities provides a source of flexible low cost financing that allows more efficient management of debt.

Commercial Paper (CP) is a short-term debt instrument that can be issued for maturities of from 1 to 270 days. Amounts borrowed typically remain outstanding longer than the

maturity of the notes themselves; because as notes mature, new notes are simultaneously issued, i.e., rolled over. CP requires a letter of credit from a bank to guaranty liquidity to investors when their notes mature. As a result of the bank's guaranty of payment, the CP enjoys the favorable short-term credit ratings of the letter of credit bank.

A revolving credit facility is an alternative to CP that has similar benefits of typically lower cost of funds. A revolving credit facility is a direct loan from a bank, at a rate that will float based on an index plus a spread, which is generally reset monthly. In addition, a fee is charged for the unutilized amount of the facility. Metro's Prop C short-term program currently includes a revolving credit facility, in addition to commercial paper. As a floating-rate borrowing that is drawn on over time, it is similar to a CP program, but because we borrow directly from a bank no ratings or broker-dealer fees are required.

The key benefits of short-term borrowing vehicles such as commercial paper or revolving credit facilities include:

- A source of flexible low cost financing
- More efficient borrowing since the debt can be drawn down as needed rather than issuing a large amount in advance, which will reduce interest cost.

Attachment B compares the estimated interest cost of short-term borrowing based on the proposed London InterBank Offered Rate ("LIBOR") index to the interest costs paid using long-term bonds or TIFIA loans. The estimated interest cost of short-term borrowing is lower than the interest cost of long-term bonds or a TIFIA loan. The ability to use a mix of short-term and long term borrowing facilities gives the greatest flexibility and should also save on interest expense by not borrowing more than necessary in advance of long-term bond issues.

Proposals for short-term borrowing facilities under Measure R have been received from several banks. Attachment C is a summary of the proposal terms and the recommended mix of credit facilities. Interest rates are expected to increase by the end of the 3-year term. Hence we are recommending the 5-year term, the maximum term offered, to lock in rates during the construction period that is anticipated to run thru 2023. The costs of issuance related to the execution of the program are estimated to be approximately \$200,000 to \$250,000, primarily for legal fees to create and review the program trust agreements and borrowing documents.

NEXT STEPS

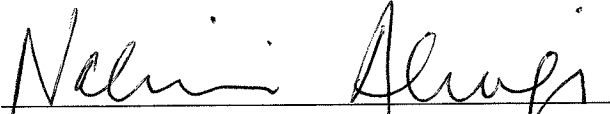
- LACMTA Board approves the Measure R Short-term Borrowing Program
- Negotiate final terms and conditions with banks
- Prepare Short-term Program Documents
- Execute Documents

ATTACHMENTS

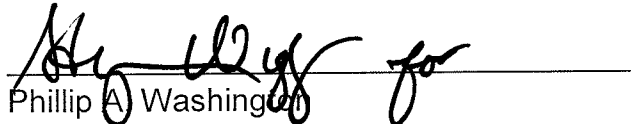
- A. Resolution Finding Benefits of a Short-term Borrowing Program
- B. Comparison Of Short-term & Long-term Borrowing Costs
- C. Summary of Proposal Terms & Estimated Costs

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**RESOLUTION PURSUANT TO MEASURE R ORDINANCE FINDING THAT THE
BENEFITS OF A SHORT TERM BORROWING PROGRAM EXCEED
ADMINISTRATION AND INTEREST COSTS**

WHEREAS, the Measure R Ordinance provides sales tax revenues for the construction of 12 transit capital projects over the next 30 years; and

WHEREAS, The America Fast Forward Initiative adopted by the LACMTA Board of Directors in April 2010 proposes to complete construction of the 12 transit capital projects in 10 rather than 30 years; and

WHEREAS, accelerated construction would avoid inflationary cost growth; and

WHEREAS, a short-term borrowing program will provide interim financing vehicles such as commercial paper and revolving credit facilities which provide a source of flexible, low cost financing that allows more effective management of a debt program to fund cash flow requirements for construction payments until funding sources are received, the federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loans are drawn upon, federal grant funds are available, or until other long-term financing is arranged; and

WHEREAS, LACMTA desires to establish a short-term borrowing program (the "Short-Term Borrowing Program") to finance projects and programs set forth in the Expenditure Plan that would be secured by the Measure R Sales Tax Revenues and be in an aggregate principal amount not to exceed \$300,000,000; and

NOW, THEREFORE, the Proposition R Independent Taxpayers Oversight Committee of LACMTA finds that the economic, environmental and transit benefits of the \$300,000, 000 Short-Term Borrowing Program as a cost effective and efficient component of the approved Measure R secured debt program, exceed issuance and interest costs.

Adopted this ___ day of May, 2015

Comparison of Short & Long-Term Borrowing Costs

Based on \$300 Million Program

	Estimated Annual Interest Cost At \$300M
I. <u>Short-Term Borrowing Program</u>¹	
(Based on bank proposals received)	
Current short-term rates (borrowing rate of 0.83%)	\$ 2,488,000
5-year average of short-term rates (borrowing rate of 0.85%)	\$ 2,548,400
10-year average of short-term rates (borrowing rate of 1.92%)	\$ 5,745,100
II. <u>Long-Term Borrowing</u>	
TIFIA Loans @rate (Crenshaw rate of 2.43%) ²	\$ 7,290,000
Measure R Bonds (estimated rate of 3.29%)	\$ 9,870,000

¹ Credit proposals are summarized in Attachment C – this analysis assumes the terms of the costliest proposal.
² TIFIA loan terms differ – this analysis assumes most advantageous TIFIA loan.

Summary of Proposals & Recommendations
Credit Agreements
Supporting \$300 Million Measure R Short-Term Borrowing Program

Rank	Bank	Maximum Commitment Amount	Estimated Annual Interest Cost At \$300M*
<u>5-Year Revolver Program</u> (Borrow rate of .49% to .83%)			
1	Bank of the West	\$ 50 million	\$ 1,513,000
2	State Street	\$ 100 million	\$ 1,465,700
3	RBC	\$ 150 million	\$ 2,036,900
4	JP Morgan	\$ 300 million	\$ 2,488,000
<u>3-Year Revolver Program</u> (Borrowing rate of .43% to .63%)			
1	Bank of the West	\$ 50 million	\$ 1,288,000
2	State Street	\$ 100 million	\$ 1,315,700
3	RBC	\$ 150 million	\$ 1,406,900
4	Wells Fargo	\$ 75 million	\$ 1,588,000
5	Bank of America	\$ 300 million	\$ 1,813,000
6	JP Morgan	\$ 300 million	\$ 1,858,000
7	Barclays	\$ 150 million	\$ 1,888,000
<u>3-Year CP Program</u> (Estimated at borrowing rate of .64%)			
	Bank of Tokyo - Mitsubishi	\$ 300 million	\$ 1,916,900
* Costs are calculated on per-\$300 million basis, although most proposals are for smaller commitment amounts.			

Note: Currently recommended proposers are indicated in bold. Terms are locked for time specified in each proposal.